

Message Text

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E.O. 11652: GDS

TAGS: ENRG, JA, ID

SUBJECT: INDONESIAN LNG

REF: A) STATE 243613 B) JAKARTA 12471 C) JAKARTA 14040

D) TOKYO 15570

SUMMARY: POSSIBLE HITCH IN INDONESIAN-PACIFIC LIGHTING
(PL) PRICE ARRANGEMENTS MAY WELL BE RESULT OF RECENT
JAPANESE ACCEPTANCE OF LNG PRICE WHICH APPEARS TO BE
\$0.36 PER MBTU HIGHER (ON F.O.B. BASIS) THAN PREVIOUSLY
NEGOTIATED PACIFIC LIGHTING CONTRACT PRICE AND OF ESCALATION
CLAUSE TIED TO OIL PRICES. PERTAMINA SOURCE IN TOKYO SAID
HE BELIEVED GOI WOULD BE UNWILLING TO RATIFY PERTAMINA-PL
CONTRACT UNTIL PRICE ADJUSTMENTS MADE. TOKYO GAS HAS INITIATED
CONTACTS WITH PL ON SWAPPING GAS. WE BELIEVE IT WOULD BE TO
ADVANTAGE OF PACIFIC LIGHTING TO EXPAND THESE CONTACTS TO INCLUDE
OTHER JAPANESE FIRMS INVOLVED IN LNG DEAL. END SUMMARY.

1. REFTEL (A) REPORTS POSSIBLE HITCH IN PRICING ARRANGE-
MENT WHICH MAY BE DEVELOPING BETWEEN PACIFIC LIGHTING
(PL) AND PERTAMINA. RECENT JAPANESE-INDONESIAN
AGREEMENT ON PRICE FORMULA, WHICH APPEARS EXTREMELY
FAVORABLE TO INDONESIA, COULD WELL BE BASIS FOR
INDONESIAN PRESSURE ON PACIFIC LIGHTING TO RENEGOTIATE
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LNG PRICES. ACCORDING TO S. SARWONO, VICE PRESIDENT OF

PERTAMINA-AFFILIATED FAR EAST TRADING COMPANY, JAPANESE DELEGATION RECENTLY AGREED IN JAKARTA TO SET BASE PRICE AT \$1.29 PER MBTU (C.I.F. JAPAN INCLUDING ABOUT \$0.30 FREIGHT). ESCALATION CLAUSE PROVIDES THAT CIF PRICE WILL BE DIVIDED INTO TWO COMPONENTS: A) TRANSPORTATION -- ALL INCREASED COSTS FOR TRANSPORTATION INCLUDING ADDITIONAL TANKERS IF NECESSARY WILL BE BORNE BY BUYER, AND B) LNG COST -- 90 PERCENT OF LNG COST WILL ESCALATE IN DIRECT PROPORTION TO PRICE OF INDONESIAN CRUDE OIL; 10 PERCENT WILL ESCALATE ON BASIS OF INFLATION FACTOR (ESTIMATED AT 4 PERCENT PER YEAR) AND (UNSPECIFIED) CURRENCY INDEX. INITIAL \$1.29 SET ON BASIS OF \$6.00 PRICE FOR MINAS CRUDE.

2. SARWONO ALSO NOTED THAT PERTAMINA EXPECTED TO ANNOUNCE INCREASES IN PRICES FOR INDONESIAN OIL ON JANUARY 1. THOUGH NO DECISIONS YET MADE ON PRICE LEVELS, SARWONO SAID JAPANESE HAVE INDICATED WILLINGNESS TO PAY UP TO AVERAGE OF \$12 PER BARREL FOR THEIR OIL FROM INDONESIA.

3. RE POSSIBILITY OF CONSULTATIONS BETWEEN U.S. AND JAPANESE INTERESTS ON GAS (REFTELS B AND C), DISCUSSIONS ARE ALREADY UNDERWAY BETWEEN TOKYO GAS AND PACIFIC LIGHTING ON SWAPPING TO JAPAN PART OF FUTURE SUPPLIES OF INDONESIAN LNG. EXECUTIVE V.P. OF TOKYO GAS, TAKEO MURAKAMI, TOLD EMBOFF DECEMBER 14 THAT DURING RECENT VISIT TO U.S. HE HAD MET RENSCH OF PACIFIC LIGHTING TO PROPOSE THAT ALASKAN GAS WHICH NOW COMING TO JAPAN (1.0 MILLION TONS/YEAR) BE SOLD INSTEAD TO PACIFIC LIGHTING. INDONESIAN GAS OWNED BY PACIFIC LIGHTING OF AND EQUIVALENT VALUE WOULD BE SOLD TO TOKYO GAS. PACIFIC LIGHTING WAS REPORTEDLY ENTHUSIASTIC ABOUT PROPOSAL. MURAKAMI MADE IT CLEAR THAT HIS PROPOSAL NOT ONLY MOTIVATED BY SAVINGS WHICH MIGHT RESULT FROM SHORTER SHIPPING DISTANCES, BUT ALSO HIS LONG-TERM CONCERN ABOUT PROSPECTS FOR ENERGY EXPORTS FROM U.S. IN YEARS TO COME.

3. COMMENT: IT WOULD APPEAR FROM TOKYO PERSPECTIVE THAT PL WILL HAVE VERY DIFFICULT TIME IN FURTHER PRICE
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NEGOTIATIONS GIVEN WHAT WOULD APPEAR TO US TO BE MAJOR JAPANESE CONCESSIONS ON ESCALATION CLAUSE AND PROBABLE UNWILLINGNESS OF GOI TO ALLOW U.S. TO ENJOY WHAT ACCORDING TO OUR COMPUTATIONS IS \$0.36 DIFFERENCE IN F.O.B. PRICES. IN COURSE OF ABOVE CONVERSATION, SARWONO ALSO SAID HE BELIEVED THAT GOI WOULD NOT RATIFY PL PERTAMINA CONTRACT UNTIL PL AGREES TO SUBSTANTIAL MODIFICATIONS OF CONTRACT. THIS COMMENT COULD SIGNAL

FURTHER ATTEMPTS BY INDONESIANS TO PLAY US AND JAPAN OFF
AGAINST ONE ANOTHER. WE THINK PACIFIC LIGHTING
WOULD HAVE MUCH TO GAIN AT THIS POINT BY
EXPANDING CONTACTS WITH JAPANESE BEYOND THOSE WITH
TOKYO GAS, WHICH IS NOT DIRECTLY INVOLVED IN PURCHASE
OF INDONESIAN LNG.
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